

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|---|---|------------------------|
| Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name: <u>City of Southgate, Michigan</u> | County <u>Wayne</u> |
| Audit Date <u>June 30, 2004</u> | Opinion Date <u>September 10, 2004</u> | Date Accountant Report Submitted To State: <u>December 3, 2004</u> | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|-------------------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

| | | | |
|---|---------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name): Plante & Moran, PLLC | | | |
| Street Address <u>27400 Northwestern Highway</u> | City <u>Southfield</u> | State <u>MI</u> | ZIP <u>48034</u> |
| Accountant Signature  | | | |

City of Southgate, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Southgate, Michigan

Principal Officials Elected

Administrative

Mayor
Dennis A. David

Clerk
Cecilia S. Dally

Treasurer
James H. Gray

Legislative

President of Council
John Graziani

Shirley Underwood
Patricia Ganzberger
Refugio Torres
Dale Zamecki
Theresa Lannen
Linda Santarossa

District Judge

James A. Kandrevas

City of Southgate, Michigan

Principal Officials Appointed

City Administrator

George Mans

Assistant City Administrator/Finance Director

David Angileri

Department Heads

Larry Hall
Police Chief

Randall Goddard
Fire Chief

J. David Weidenbach
Director of Public Services

David D. Collins
Chief Building Inspector

Allen J. Kowalkowski
Parks and Recreation Director

City Attorneys

Jack Timmony
VanOverbeke Michaud & Timmony, P.C.

City Auditors

Plante & Moran, PLLC

Consultants

Urban Engineering Company - Engineers
Wade Trim - Planning Consultants

City of Southgate, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Southgate, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Southgate, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement systems schedules of funding progress and employer contributions, and budgetary comparison schedules (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A member of



A worldwide association of independent accounting firms

To the Honorable Mayor and
Members of the City Council
City of Southgate, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Southgate, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the City of Southgate, Michigan's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 10, 2004

City of Southgate, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Southgate's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$145,000 this year. This represents a 4 percent decrease from the prior year.
- Property taxes are the City's single, largest source of revenue. The City's taxable value for fiscal year 2004 was \$754,712,297, which represents an increase of \$27,379,994, or 3.8 percent.
- The City completed construction of the District Court expansion, a project that is funded through the Court Capital Improvement Fund.
- The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, fund balance in the General Fund decreased by less than \$530,000 despite certain revenue decreases as well as increases in expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date (in thousands of dollars):

TABLE I

| | Governmental | | Business-type Activities | | Total | |
|--|------------------|------------------|--------------------------|------------------|------------------|------------------|
| | Activities | | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | | | |
| Current assets | \$ 13,689 | \$ 15,358 | \$ 6,381 | \$ 6,838 | \$ 20,070 | \$ 22,196 |
| Noncurrent assets | <u>64,525</u> | <u>62,628</u> | <u>31,120</u> | <u>30,465</u> | <u>95,645</u> | <u>93,093</u> |
| Total assets | 78,214 | 77,986 | 37,501 | 37,303 | 115,715 | 115,289 |
| Liabilities | | | | | | |
| Current liabilities | 4,338 | 6,989 | 1,987 | 1,995 | 6,325 | 8,984 |
| Long-term liabilities | <u>20,328</u> | <u>20,003</u> | <u>13,408</u> | <u>14,583</u> | <u>33,736</u> | <u>34,586</u> |
| Total liabilities | <u>24,666</u> | <u>26,992</u> | <u>15,395</u> | <u>16,578</u> | <u>40,061</u> | <u>43,570</u> |
| Net Assets | | | | | | |
| Invested in capital assets - Net of related debt | 46,317 | 44,238 | 16,455 | 17,588 | 62,772 | 61,826 |
| Restricted | 7,000 | 6,003 | 3,269 | 272 | 10,269 | 6,275 |
| Unrestricted | <u>231</u> | <u>753</u> | <u>2,382</u> | <u>2,865</u> | <u>2,612</u> | <u>3,618</u> |
| Total net assets | <u>\$ 53,548</u> | <u>\$ 50,994</u> | <u>\$ 22,106</u> | <u>\$ 20,725</u> | <u>\$ 75,654</u> | <u>\$ 71,719</u> |

The City's combined net assets increased 5.5 percent from a year ago, increasing from about \$72 million to about \$76 million. As we look at governmental activities separately from the business-type activities, we can see that net assets increased by \$2.5 million in governmental type and by \$1.5 million in business type. Business-type activities comprise \$22 million of the total net assets.

Unrestricted net assets, the portion of net assets that can be used to finance day-to-day operations, decreased by \$522 thousand for governmental activities. The current level of unrestricted net assets for our governmental activities stands at \$231 thousand, or about 1.0 percent of expenditures.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year (in thousands of dollars):

TABLE 2

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|------------------|-----------------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Net Assets - Beginning of year | \$ 50,994 | \$ 44,973 | \$ 20,725 | \$ 18,604 | \$ 71,719 | \$ 63,577 |
| Revenue | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | 4,669 | 5,300 | 5,888 | 6,535 | 10,557 | 11,835 |
| Operating grants and contributions | 3,776 | 2,434 | - | - | 3,776 | 2,434 |
| Capital grants and contributions | 882 | 7,021 | 457 | - | 1,339 | 7,021 |
| General revenue: | | | | | | |
| Property taxes: | | | | | | |
| City | 7,734 | 7,492 | - | - | 7,734 | 7,492 |
| Sanitation | 1,506 | 1,655 | - | - | 1,506 | 1,655 |
| Police and fire | 990 | 690 | - | - | 990 | 690 |
| Library | 687 | 673 | - | - | 687 | 673 |
| Streets | 1,353 | 1,346 | - | - | 1,353 | 1,346 |
| EPA | - | - | 1,112 | 1,631 | 1,112 | 1,631 |
| State-shared revenue | 3,417 | 3,561 | - | - | 3,417 | 3,561 |
| Unrestricted investment earnings | 348 | 292 | 64 | 33 | 412 | 325 |
| Transfers and other revenue | 284 | 40 | - | - | 284 | 40 |
| Total revenue | 25,646 | 30,504 | 7,521 | 8,199 | 33,167 | 38,703 |
| Program Expenses | | | | | | |
| General government | 4,076 | 6,967 | - | - | 4,076 | 6,967 |
| Public safety | 6,978 | 6,442 | - | - | 6,978 | 6,442 |
| Public works | 7,593 | 8,160 | - | - | 7,593 | 8,160 |
| 28th District Court | 1,454 | 1,376 | - | - | 1,454 | 1,376 |
| Recreation and culture | 2,038 | 716 | - | - | 2,038 | 716 |
| Interest on long-term debt | 953 | 822 | - | - | 953 | 822 |
| Golf course | - | - | 581 | 636 | 581 | 636 |
| Water and sewer | - | - | 5,519 | 5,402 | 5,519 | 5,402 |
| General Expense - Transfers and other revenue | - | - | 40 | 40 | 40 | 40 |
| Total expenses | 23,092 | 24,483 | 6,140 | 6,078 | 29,232 | 30,561 |
| Change in Net Assets | 2,554 | 6,021 | 1,381 | 2,121 | 3,935 | 8,142 |
| Net Assets - End of year | <u>\$ 53,548</u> | <u>\$ 50,994</u> | <u>\$ 22,106</u> | <u>\$ 20,725</u> | <u>\$ 75,654</u> | <u>\$ 71,719</u> |

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

The City's total governmental revenues decreased by approximately \$4,900,000 from the prior year, largely due to a one-time contribution in the prior year from the Tax Increment Finance Authority for the fun and fitness centre. In addition, the City had decreases in state-shared revenue, court fines, and interest income, which contributed to the decrease.

Overall, current year expenses decreased from the prior year by approximately \$1,400,000, primarily due to significant compensated absence payouts to retirees in the prior year. Except for these, payout expenses remained relatively consistent with the prior year, despite large increases in health care costs as well as police and fire overtime. To offset these increases, the City closely monitored its spending in all other areas.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Golf Course Fund. We provide water to residents from the Detroit Water System. We also provide sewage treatment through Wayne County Downriver Sewage Disposal System. In the Golf Course Fund, the two biggest factors affecting business are weather and the economy. In the spring of 2004, the course was opened 13 days later than it was in 2003 and it had six more days of rain than the year before. In the fiscal year, the rounds were down only 6 percent compared to 9 percent nationally. As of April 2004, the club house is under new management. Operating loss for the golf course was \$113,378 for the fiscal year. This was \$18,303 better than the year before, or an improvement of 13 percent.

The City's Funds

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2004 include the General Fund, the CDBG Fund, and the Building Authority Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$7,400,000 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

City of Southgate, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The most significant changes were decreases to estimated state-shared revenue and court revenue. City departments overall stayed within 2.7 percent of budget, resulting in total expenditures exceeding revenues by \$529,168. This resulted in a decrease in the General Fund's fund balance from \$2,975,000 a year ago to \$2,446,000 at June 30, 2004.

Capital Asset and Debt Administration

The City continues to collect a dedicated millage approved by the voters in November 2001 for improvements to streets in conjunction with a five-year improvement plan.

At the end of 2004, the City had approximately \$95,000,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the City has invested significantly in roads within the City.

Economic Factors and Next Year's Budgets and Rates

The City's budget for next year calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow less than by inflation, before considering new property additions.

We anticipate that the water and sewer rates will have to increase somewhat in 2005. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

City of Southgate, Michigan

Statement of Net Assets (Deficit) June 30, 2004

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and investments (Note 3) | \$ 9,077,059 | \$ 1,074,052 | \$ 10,151,111 | \$ 466,173 |
| Receivables - Net (Note 4) | 2,961,532 | 2,105,463 | 5,066,995 | 11,461 |
| Internal balances | 306,494 | (306,494) | - | - |
| Due from other governmental units | 1,341,314 | - | 1,341,314 | 23,077 |
| Prepaid items and other assets | 2,234 | - | 2,234 | - |
| Inventories | - | 239,566 | 239,566 | - |
| Restricted assets (Note 9) | - | 3,269,353 | 3,269,353 | - |
| Investment in joint ventures | - | 252,509 | 252,509 | - |
| Net pension asset (Note 12) | 610,110 | - | 610,110 | - |
| Capital assets - Net (Note 5): | | | | |
| Assets not being depreciated | 4,239,847 | 746,584 | 4,986,431 | - |
| Assets being depreciated | 59,675,562 | 30,120,463 | 89,796,025 | - |
| Total assets | 78,214,152 | 37,501,496 | 115,715,648 | 500,711 |
| Liabilities | | | | |
| Accounts payable | 1,387,437 | 859,030 | 2,246,467 | 11,171 |
| Accrued and other liabilities | 506,040 | 47,111 | 553,151 | - |
| Deferred revenue (Note 4) | 727,643 | - | 727,643 | - |
| Due to other governmental units | 107,982 | - | 107,982 | 702,220 |
| Compensated absences and other (Notes 1 and 7): | | | | |
| Due within one year | 870,434 | 16,688 | 887,122 | - |
| Due in more than one year | 3,343,031 | 60,648 | 3,403,679 | - |
| Long-term debt (Notes 1 and 7): | | | | |
| Due within one year | 738,428 | 1,064,183 | 1,802,611 | - |
| Due in more than one year | 16,985,365 | 13,347,733 | 30,333,098 | - |
| Total liabilities | 24,666,360 | 15,395,393 | 40,061,753 | 713,391 |
| Net Assets (Deficit) | | | | |
| Invested in capital assets - Net of related debt | 46,317,085 | 16,455,131 | 62,772,216 | - |
| Restricted: | | | | |
| Street expenses | 3,920,953 | - | 3,920,953 | - |
| Sanitation, retirement, and building operations | 489,118 | - | 489,118 | - |
| Southgate/Wyandotte drain operation and maintenance | 1,824,962 | - | 1,824,962 | - |
| Library levy | 748,719 | - | 748,719 | - |
| Narcotics enforcement activity | 16,198 | - | 16,198 | - |
| Sewer debt and capital outlay | - | 3,269,353 | 3,269,353 | - |
| Unrestricted | 230,757 | 2,381,619 | 2,612,376 | (212,680) |
| Total net assets (deficit) | \$ 53,547,792 | \$ 22,106,103 | \$ 75,653,895 | \$ (212,680) |

City of Southgate, Michigan

| | Program Revenues | | | |
|---|----------------------|----------------------|------------------------------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 4,075,782 | \$ 565,414 | \$ 742,308 | \$ 65,703 |
| Public safety | 6,978,472 | 69,395 | 8,401 | 116,888 |
| Public services | 7,593,035 | 1,470,616 | 1,712,325 | 699,182 |
| Cultural and recreation | 2,038,198 | 848,991 | 1,267,644 | - |
| 28th District Court | 1,454,370 | 1,715,428 | 45,724 | - |
| Interest on long-term debt | 953,475 | - | - | - |
| Total governmental activities | 23,093,332 | 4,669,844 | 3,776,402 | 881,773 |
| Business-type activities: | | | | |
| Water and sewer | 5,518,525 | 5,420,728 | - | 456,552 |
| Golf course | 580,550 | 467,172 | - | - |
| Total business-type activities | 6,099,075 | 5,887,900 | - | 456,552 |
| Total primary government | \$ 29,192,407 | \$ 10,557,744 | \$ 3,776,402 | \$ 1,338,325 |
| Component units: | | | | |
| Tax Increment Financing Authority | \$ 1,392,900 | \$ 20,962 | \$ - | \$ - |
| Downtown Development Authority | 40,520 | - | - | - |
| Economic Development Corporation | - | - | - | - |
| Total component units | \$ 1,433,420 | \$ 20,962 | \$ - | \$ - |
| General revenues: | | | | |
| Property taxes: | | | | |
| City | | | | |
| Sanitation | | | | |
| Police and fire | | | | |
| Library | | | | |
| Streets | | | | |
| EPA | | | | |
| Component unit | | | | |
| State-shared revenues | | | | |
| Gain on sale of land | | | | |
| Unrestricted investment earnings | | | | |
| Transfers | | | | |
| Total general revenues, proceeds, and transfers | | | | |
| Change in Net Assets | | | | |
| Net Assets - Beginning of year - As restated (Note 12) | | | | |
| Net Assets (Deficit) - End of year | | | | |

Statement of Activities Year Ended June 30, 2004

| Net (Expense) Revenue and Changes in Net Assets | | | |
|---|-----------------------------|----------------------|---------------------|
| Primary Government | | | |
| Governmental Activities | Business-type Activities | Total | Component Units |
| \$ (2,702,357) | \$ - | \$ (2,702,357) | \$ - |
| (6,783,788) | - | (6,783,788) | - |
| (3,710,912) | - | (3,710,912) | - |
| 78,437 | - | 78,437 | - |
| 306,782 | - | 306,782 | - |
| (953,475) | - | (953,475) | - |
| (13,765,313) | - | (13,765,313) | - |
| - | 358,755 | 358,755 | - |
| - | (113,378) | (113,378) | - |
| - | 245,377 | 245,377 | - |
| (13,765,313) | 245,377 | (13,519,936) | - |
| - | - | - | (1,371,938) |
| - | - | - | (40,520) |
| - | - | - | - |
| - | - | - | (1,412,458) |
| 7,733,771 | - | 7,733,771 | - |
| 1,505,891 | - | 1,505,891 | - |
| 989,946 | - | 989,946 | - |
| 687,133 | - | 687,133 | - |
| 1,352,533 | - | 1,352,533 | - |
| - | 1,112,437 | 1,112,437 | - |
| - | - | - | 1,156,951 |
| 3,416,875 | - | 3,416,875 | - |
| 244,543 | - | 244,543 | - |
| 348,162 | 63,415 | 411,577 | 524 |
| 40,000 | (40,000) | - | - |
| 16,318,854 | 1,135,852 | 17,454,706 | 1,157,475 |
| 2,553,541 | 1,381,229 | 3,934,770 | (254,983) |
| 50,994,251 | 20,724,874 | 71,719,125 | 42,303 |
| \$ 53,547,792 | \$ 22,106,103 | \$ 75,653,895 | \$ (212,680) |

City of Southgate, Michigan

Governmental Funds Balance Sheet June 30, 2004

| | Major Funds | | | | |
|--|---------------------|---|-------------------------------|--------------------------------------|-----------------------------|
| | General Fund | Community Development Block Grant Fund | Building Authority Fund | Other Nonmajor Governmental Funds | Total Governmental Funds |
| Assets | | | | | |
| Cash and investments | \$ 381,733 | \$ - | \$ 17,551 | \$ 8,416,597 | \$ 8,815,881 |
| Receivables - Net | 1,360,974 | 646,270 | 5,537 | 948,671 | 2,961,452 |
| Due from other funds | 1,871,252 | 537,335 | - | 350,709 | 2,759,296 |
| Due from other governmental units | 631,735 | 322,456 | - | 387,123 | 1,341,314 |
| Prepaid costs and other assets | - | 1,403 | - | 831 | 2,234 |
| Total assets | <u>\$ 4,245,694</u> | <u>\$ 1,507,464</u> | <u>\$ 23,088</u> | <u>\$ 10,103,931</u> | <u>\$ 15,880,177</u> |
| Liabilities and Fund Balances (Deficit) | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 785,338 | \$ - | \$ - | \$ 568,490 | \$ 1,353,828 |
| Accrued and other liabilities | 506,040 | - | - | - | 506,040 |
| Due to other funds | 446,793 | 1,088,144 | - | 917,865 | 2,452,802 |
| Due to other governmental units | 684 | - | 23,077 | 84,221 | 107,982 |
| Deferred revenue | 61,107 | 961,389 | - | 27,603 | 1,050,099 |
| Total liabilities | 1,799,962 | 2,049,533 | 23,077 | 1,598,179 | 5,470,751 |
| Fund Balances (Deficit) | | | | | |
| Reserved for other purposes | 489,118 | - | - | 125,469 | 614,587 |
| Unreserved: | | | | | |
| Designated - Reported in: | | | | | |
| General Fund | 412,021 | - | - | - | 412,021 |
| Capital Projects Fund | - | - | - | 900,047 | 900,047 |
| Undesignated - Reported in: | | | | | |
| General Fund | 1,544,593 | - | - | - | 1,544,593 |
| Special Revenue Funds | - | (542,069) | - | 7,286,858 | 6,744,789 |
| Debt Service Funds | - | - | 11 | 193,378 | 193,389 |
| Total fund balances (deficit) | <u>2,445,732</u> | <u>(542,069)</u> | <u>11</u> | <u>8,505,752</u> | <u>10,409,426</u> |
| Total liabilities and fund balances (deficit) | <u>\$ 4,245,694</u> | <u>\$ 1,507,464</u> | <u>\$ 23,088</u> | <u>\$ 10,103,931</u> | |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|---|----------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds | 63,915,409 |
| Net pension asset is not a financial resource and is not reported in the funds | 610,110 |
| Grant revenue not collected within 60 days of year end is recognized as revenue, but shown as governmental revenue. | 322,456 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds | (21,937,258) |
| Internal Service Funds are included as part of governmental activities | 227,649 |
| Net assets of governmental activities | <u>\$ 53,547,792</u> |

City of Southgate, Michigan

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2004

| | Major Funds | | | Other | Total |
|---|---------------------|---------------------|--------------------|---------------------|----------------------|
| | General | Community | Building Authority | Nonmajor | Total |
| | Fund | Development | Fund | Governmental | Governmental |
| | | Block Grant | | Funds | Funds |
| | | Fund | | | |
| Revenues | | | | | |
| Property taxes | \$ 10,229,434 | \$ - | \$ - | \$ 2,039,840 | \$ 12,269,274 |
| Federal sources | 161,686 | 125,920 | - | 1,069,342 | 1,356,948 |
| State sources | 3,546,082 | - | - | 1,712,325 | 5,258,407 |
| Local sources | - | - | 5,787 | - | 5,787 |
| Charges for services | 917,096 | - | - | 135,161 | 1,052,257 |
| Licenses and permits | 611,134 | - | - | - | 611,134 |
| Fines and forfeitures | 1,590,813 | - | - | - | 1,590,813 |
| Interest and rentals | 440,526 | - | 1,879 | 296,135 | 738,540 |
| Special assessments | - | - | - | 886,909 | 886,909 |
| Other | 89,975 | - | 1,245,183 | 287,437 | 1,622,595 |
| Total revenues | 17,586,746 | 125,920 | 1,252,849 | 6,427,149 | 25,392,664 |
| Expenditures - Current | | | | | |
| General government | 4,150,901 | - | - | 600,880 | 4,751,781 |
| Public services | 4,371,721 | 560,045 | - | 4,575,191 | 9,506,957 |
| Public safety | 7,387,174 | - | - | 58,747 | 7,445,921 |
| Cultural and recreation | 1,598,160 | - | 875 | - | 1,599,035 |
| Capital outlay | - | - | 140,514 | 368,410 | 508,924 |
| Debt service | - | - | 1,102,765 | 348,270 | 1,451,035 |
| Total expenditures | 17,507,956 | 560,045 | 1,244,154 | 5,951,498 | 25,263,653 |
| Excess of Revenues Over (Under) Expenditures | 78,790 | (434,125) | 8,695 | 475,651 | 129,011 |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from issuance of debt | - | - | 1,505,420 | 700,000 | 2,205,420 |
| Transfer to escrow agent | - | - | (1,505,420) | - | (1,505,420) |
| Transfers in | - | - | 416,352 | 604,194 | 1,020,546 |
| Transfers out | (607,958) | - | - | (472,588) | (1,080,546) |
| Total other financing sources (uses) | (607,958) | - | 416,352 | 831,606 | 640,000 |
| Net Change in Fund Balances | (529,168) | (434,125) | 425,047 | 1,307,257 | 769,011 |
| Fund Balances (Deficit) - Beginning of year | 2,974,900 | (107,944) | (425,036) | 7,198,495 | 9,640,415 |
| Fund Balances (Deficit) - End of year | \$ 2,445,732 | \$ (542,069) | \$ 11 | \$ 8,505,752 | \$ 10,409,426 |

City of Southgate, Michigan

Governmental Funds Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 769,011

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|---|-------------|
| Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation | 4,032,441 |
| Depreciation on capital assets reported on governmental funds report as capital outlays expenditures | (2,049,945) |
| Governmental funds do not report a gain or loss on the disposal of assets, but records proceeds from the disposal as revenue; in the statement of activities, the gain or loss on disposal is calculated based on the net book value of the asset and the proceeds received | (31,052) |
| Change in the net pension asset is recorded on the statement of activities | (54,213) |
| Net change in revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33) | 214,512 |
| Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) | 2,217,007 |
| Bond proceeds are not reported as financing sources on the statement of activities | (2,215,000) |
| Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when incurred in the statement of activities | (305,920) |
| Internal Service Funds are also included as governmental activities | (23,300) |

Change in Net Assets of Governmental Activities \$ 2,553,541

City of Southgate, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

| | Enterprise Funds | | | Internal Service Fund - Workers' Compensation |
|---|--------------------|-------------|---------------|---|
| | Water and Sewer | Golf Course | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 811,097 | \$ 88,836 | \$ 899,933 | \$ 435,296 |
| Receivables - Net | 2,102,571 | 2,839 | 2,105,410 | 133 |
| Due from other funds | 4,671 | - | 4,671 | - |
| Inventories | 239,566 | - | 239,566 | - |
| Total current assets | 3,157,905 | 91,675 | 3,249,580 | 435,429 |
| Noncurrent assets: | | | | |
| Restricted assets (Note 9) | 3,269,353 | - | 3,269,353 | - |
| Investment in joint ventures (Note 15) | 252,509 | - | 252,509 | - |
| Capital assets | 30,067,892 | 799,155 | 30,867,047 | - |
| Total noncurrent assets | 33,589,754 | 799,155 | 34,388,909 | - |
| Total assets | 36,747,659 | 890,830 | 37,638,489 | 435,429 |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 794,448 | 42,173 | 836,621 | 6,022 |
| Accrued and other liabilities | 38,005 | 9,106 | 47,111 | 50,000 |
| Due to other funds | 83,161 | 228,004 | 311,165 | - |
| Due to other governmental units | - | - | - | - |
| Current portion of compensated absences | 16,688 | - | 16,688 | - |
| Current portion of long-term debt | 1,064,183 | - | 1,064,183 | - |
| Total current liabilities | 1,996,485 | 279,283 | 2,275,768 | 56,022 |
| Noncurrent liabilities: | | | | |
| Provision for compensated absences - Net of current portion | 60,648 | - | 60,648 | - |
| Long-term debt - Net of current portion | 13,347,733 | - | 13,347,733 | - |
| Total noncurrent liabilities | 13,408,381 | - | 13,408,381 | - |
| Total liabilities | 15,404,866 | 279,283 | 15,684,149 | 56,022 |
| Net Assets | | | | |
| Invested in capital assets - Net of related debt | 15,655,976 | 799,155 | 16,455,131 | - |
| Restricted | 3,269,353 | - | 3,269,353 | - |
| Unrestricted | 2,417,464 | (187,608) | 2,229,856 | 379,407 |
| Total net assets | \$ 21,342,793 | \$ 611,547 | 21,954,340 | \$ 379,407 |
| Amounts reported for business-type activities in the statement of net assets are different because a portion of Internal Service Funds is included as part of business-type activities | | | 151,763 | |
| Net assets of business-type activities | | | \$ 22,106,103 | |

City of Southgate, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

| | Enterprise Funds | | | Governmental Activities - Internal Service Fund - Workers' Compensation |
|--|----------------------|-------------------|----------------------|---|
| | Water and Sewer | Golf Course | Total | |
| Operating Revenues | | | | |
| Water consumption | \$ 1,963,813 | \$ - | \$ 1,963,813 | \$ - |
| Sewage disposal charges | 2,551,165 | - | 2,551,165 | - |
| Assessments | 528,452 | - | 528,452 | - |
| Other | 377,298 | - | 377,298 | 45,000 |
| Greens fees and miscellaneous | - | 467,172 | 467,172 | - |
| Total operating revenues | 5,420,728 | 467,172 | 5,887,900 | 45,000 |
| Operating Expenses | | | | |
| Cost of water produced/purchased | 1,197,637 | - | 1,197,637 | - |
| Cost of sewage treatment | 1,439,449 | - | 1,439,449 | - |
| Operation and maintenance | 1,286,804 | 474,093 | 1,760,897 | - |
| Overhead and other | 380,179 | 42,304 | 422,483 | - |
| Depreciation | 915,527 | 64,153 | 979,680 | - |
| Contractual services | - | - | - | 88,329 |
| Total operating expenses | 5,219,596 | 580,550 | 5,800,146 | 88,329 |
| Operating Income (Loss) | 201,132 | (113,378) | 87,754 | (43,329) |
| Nonoperating Revenue (Expenses) | | | | |
| Property tax collections - EPA levy | 1,112,437 | - | 1,112,437 | - |
| Gain on sale of asset | - | - | - | - |
| Investment income | 61,252 | 365 | 61,617 | 4,495 |
| Joint venture revenue | - | - | - | - |
| Interest expense | (281,597) | - | (281,597) | - |
| Income (Loss) - Before contributions | 1,093,224 | (113,013) | 980,211 | (38,834) |
| Capital Contributions (donated water and sewer lines) | 456,552 | - | 456,552 | - |
| Transfers to Severance Reserve | (40,000) | - | (40,000) | - |
| Change in Net Assets | 1,509,776 | (113,013) | 1,396,763 | (38,834) |
| Net Assets - Beginning of year | 19,833,017 | 724,560 | 20,557,577 | 418,241 |
| Net Assets - End of year | <u>\$ 21,342,793</u> | <u>\$ 611,547</u> | <u>\$ 21,954,340</u> | <u>\$ 379,407</u> |
| Net Change in Net Assets | | | \$ 1,396,763 | |
| Total Enterprise Funds - Internal Service Funds are also included as business-type activities | | | (15,534) | |
| Change in Net Assets of Business-type Activities | | | <u>\$ 1,381,229</u> | |

City of Southgate, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

| | Enterprise Funds | | Internal Service Funds |
|---|---------------------|------------------|------------------------|
| | Water and Sewer | Golf Course | Funds |
| Cash Flows from Operating Activities | | | |
| Receipts from customers | \$ 5,080,152 | \$ 465,012 | \$ 45,005 |
| Payments to suppliers | (2,664,797) | (390,381) | - |
| Payments to employees | (1,658,947) | (41,043) | - |
| Claims paid | - | - | (88,318) |
| Net cash provided by (used in) operating activities | 756,408 | 33,588 | (43,313) |
| Cash Flows from Noncapital and Related Financing Activities - | | | |
| Interfund transfers | (40,000) | - | - |
| Cash Flows from Capital and Related Financing Activities | | | |
| Purchase of capital assets | (1,154,775) | (22,470) | - |
| Principal and interest paid on capital debt | (1,442,234) | - | - |
| Property tax collection | 1,112,437 | - | - |
| Net cash used in capital and related financing activities | (1,484,572) | (22,470) | - |
| Cash Flows from Investing Activities - Interest received on investments | 61,252 | 365 | 4,495 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (706,912) | 11,483 | (38,818) |
| Cash and Cash Equivalents - Beginning of year | 1,820,314 | 77,353 | 474,114 |
| Cash and Cash Equivalents - End of year | <u>\$ 1,113,402</u> | <u>\$ 88,836</u> | <u>\$ 435,296</u> |
| Balance Sheet Classification of Cash and Cash Equivalents | | | |
| Cash and investments | \$ 811,097 | \$ 88,836 | \$ 435,296 |
| Restricted investments (Note 9) | 302,305 | - | - |
| Total cash and cash equivalents | <u>\$ 1,113,402</u> | <u>\$ 88,836</u> | <u>\$ 435,296</u> |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | | |
| Operating income (loss) | \$ 201,132 | \$ (113,378) | \$ (43,329) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | | |
| Depreciation and amortization | 915,527 | 64,153 | - |
| Changes in assets and liabilities: | | | |
| Receivables | (278,065) | (2,824) | 5 |
| Other assets | (62,511) | 664 | - |
| Accounts payable | (27,711) | (3,783) | 11 |
| Accrued and other liabilities | 1,835 | 1,261 | - |
| Compensated absence | 6,201 | - | - |
| Interfund activity | - | 87,495 | - |
| Net cash provided by (used in) operating activities | <u>\$ 756,408</u> | <u>\$ 33,588</u> | <u>\$ (43,313)</u> |

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, the County of Wayne used the City's assets held at the County to pay debt principal of \$969,706 and interest of \$358,073. Developers contributed water and sewer mains valued at \$456,552.

City of Southgate, Michigan

Fiduciary Funds Statement of Fiduciary Net Assets June 30, 2004

| | Pension and Other Employee Benefit Trust Funds | Agency Funds |
|--|---|-----------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| Cash and cash equivalents | \$ 5,034,698 | \$ 251,347 |
| Investments: | | |
| U.S. government securities | 10,847,482 | - |
| Stocks and mutual funds | 42,062,025 | - |
| Bonds | 7,833,747 | - |
| Other | 677,000 | 555,000 |
| Receivables | <u>252,252</u> | <u>165</u> |
| Total assets | 66,707,204 | <u><u>\$ 806,512</u></u> |
| Liabilities | | |
| Accounts payable | 26,057 | \$ 41,335 |
| Due to other governmental units | - | 494,299 |
| Cash bonds and deposits | <u>-</u> | <u>270,878</u> |
| Total liabilities | <u>26,057</u> | <u><u>\$ 806,512</u></u> |
| Net Assets - Held in trust for pension and other employee benefits | | <u><u>\$ 66,681,147</u></u> |

City of Southgate, Michigan

Fiduciary Funds Statement of Changes in Fiduciary Net Assets Year Ended June 30, 2004

| | Pension and Other Employee Benefit Trust Funds |
|---|---|
| Additions | |
| Investment income: | |
| Interest and dividends | \$ 1,702,628 |
| Net increase in fair value of investments | 4,581,885 |
| Investment expense | <u>(491,439)</u> |
| Net investment income | 5,793,074 |
| Contributions: | |
| Employer | 1,218,837 |
| Employee | <u>401,460</u> |
| Total contributions | <u>1,620,297</u> |
| Total additions | 7,413,371 |
| Deductions | |
| Benefit payments | 5,618,873 |
| Refunds of contributions | <u>95,338</u> |
| Total deductions | <u>5,714,211</u> |
| Net Income - Before transfers | 1,699,160 |
| Transfers - Net | <u>100,000</u> |
| Net Increase in Net Assets Held for Pension Benefits | 1,799,160 |
| Net Assets Held in Trust for Pension and Other Employee Benefits | |
| Beginning of year | <u>64,881,987</u> |
| End of year | <u>\$ 66,681,147</u> |

City of Southgate, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2004

| | Tax Increment Financing Authority | Downtown Development Authority | Totals |
|--|---|--------------------------------------|---------------------|
| Assets | | | |
| Cash and investments | \$ 370,402 | \$ 95,771 | \$ 466,173 |
| Other receivables | 11,461 | - | 11,461 |
| Due from other governmental units - City Building Authority | 23,077 | - | 23,077 |
| Total assets | 404,940 | 95,771 | 500,711 |
| Liabilities | | | |
| Accounts payable | 9,647 | 1,524 | 11,171 |
| Due to other governmental units - General Fund | 702,220 | - | 702,220 |
| Total liabilities | 711,867 | 1,524 | 713,391 |
| Net Assets (Deficit) - Unrestricted | \$ (306,927) | \$ 94,247 | \$ (212,680) |

City of Southgate, Michigan

| | Program Revenues | | |
|--|---------------------|----------------------|----------------------------------|
| | Expenses | Charges for Services | Capital Grants and Contributions |
| Tax Increment Financing Authority - | | | |
| Redevelopment | \$ 1,392,900 | \$ 20,962 | \$ - |
| Downtown Development Authority - | | | |
| General government | 40,520 | - | - |
| Total governmental activities | <u>\$ 1,433,420</u> | <u>\$ 20,962</u> | <u>\$ -</u> |
| General revenues: | | | |
| Property taxes | | | |
| Interest | | | |
| Total general revenues | | | |
| Change in Net Assets (Deficit) | | | |
| Net Assets - Beginning of year | | | |
| Net Assets (Deficit) - End of year | | | |

**Component Units
Statement of Activities
Year Ended June 30, 2004**

| Net (Expense) Revenue and Changes in Net Assets | | |
|--|--------------------------------------|---------------------|
| Tax Increment Financing Authority | Downtown Development Authority | Total |
| \$ (1,371,938) | \$ - | \$ (1,371,938) |
| - | (40,520) | (40,520) |
| (1,371,938) | (40,520) | (1,412,458) |
| 1,064,487 | 92,464 | 1,156,951 |
| 524 | - | 524 |
| 1,065,011 | 92,464 | 1,157,475 |
| (306,927) | 51,944 | (254,983) |
| - | 42,303 | 42,303 |
| <u>\$ (306,927)</u> | <u>\$ 94,247</u> | <u>\$ (212,680)</u> |

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Southgate, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Southgate:

Reporting Entity

The City of Southgate is governed by an elected mayor and elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units - The City of Southgate Building Authority (the "Building Authority") is governed by a board that is appointed by the mayor and approved by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the City's public buildings. The City is involved in the purchase, by lease contract, of recreation facilities and related improvements and a library building addition from the Building Authority. Building Authority operations consist of the issuance and repayment of debt and the construction of facilities. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Funds.
- b. Fixed assets (completed construction projects) and remaining amounts due on bonds issued by the Building Authority are reported in the governmental activities statement of net assets (deficit).

Discretely Presented Component Units - The Tax Increment Financing Authority's (the "Authority") governing body, which consists of 11 individuals, is appointed by the mayor and approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial statements can be obtained by writing to the City of Southgate.

Note I - Summary of Significant Accounting Policies (Continued)

The Downtown Development Authority (the “DDA”) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA’s governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council. In addition, the DDA’s budget is subject to approval by the City.

The Economic Development Corporation (the “Corporation”) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation’s governing body, which consists of nine individuals, is appointed by the mayor and approved by the City Council.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 15.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Community Development Block Grant Fund - The Community Development Block Grant Fund accounts for community development grants and rehabilitation lien activity.

Building Authority Fund - The Building Authority Fund consists of operations related to the issuance and repayment of debt and the construction of facilities.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Golf Course Fund - The Golf Course Fund accounts for the activities of the clubhouse operations and golf course operations.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, mainly on a cost-reimbursement basis.

Pension and Other Employee Benefit Trust Funds - The Pension and Other Employee Benefit Trust Funds account for the activities of the Policemen and Firemen and Municipal Employees' Retirement Systems and their related retiree health care funds, which accumulate resources for pension benefit payments to qualified police and fire and municipal retirees.

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for water and sewer sales and greens fees. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City totaled \$754 million, on which ad valorem taxes levied consisted of 10.1968 mills for the City's operating purposes, 2.1283 mills for refuse, 1.3993 mills for Act 345 police and fire retirement, .9696 mills for the library's operating purposes, 1.9084 mills for road construction, and 1.3638 mills for the EPA judgment levy. The ad valorem taxes levied raised \$7,200,000 for operation, \$1,500,000 for refuse, \$990,000 for police and fire retirement, \$685,000 for the library's operation, \$1,350,000 for road construction, and \$1,018,000 for the EPA judgment levy. These amounts are recognized in the respective General, Special Revenue, Water and Sewer, and Debt Service Funds financial statements as taxes receivable - current or as tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The bonds of the Water and Sewer Fund require amounts to be set aside for debt service principal and interest, and a bond reserve. In addition, a portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|-------------|
| Infrastructure | 30-50 years |
| Water and sewer distribution systems | 50-75 years |
| Land improvements | 20 years |
| Buildings and building improvements | 50 years |
| Vehicles | 8-10 years |
| Equipment and machinery | 10-20 years |

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Employees may receive payment of the accumulated sick leave and vacation balance at the rate determined by union contracts, which vary from unit to unit. All vacation and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following statements represent a brief synopsis of the major provisions of this Act:

1. Budgets must be adopted for the General Fund and Special Revenue Funds.
2. The budgets must be balanced. The balanced budget may include a contribution to or appropriation from fund balance.
3. The budgets must be amended when necessary.
4. Debt cannot be entered into unless permitted by law.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures cannot be made unless authorized in the budget.
7. Public hearings must be held before budget adoptions.

The City adopts its budget by budgetary center (activity/department), which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before 90 days prior to the commencement of the fiscal and budget year (July 1), the mayor shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least one month in advance thereof by the clerk.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

Budget appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in the “revenue” and “expenditures” categories, rather than as “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than as a reduction of expenditures.
- The Community Development Block Grant Fund has not been budgeted, and therefore, the financial activity has been omitted from the budget statement.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted, as follows:

| General Fund | Final Budget | Actual | Variance |
|--|--------------|--------------|-------------|
| General government: | | | |
| 28th District Court | \$ 1,439,884 | \$ 1,473,914 | \$ (34,030) |
| Attorney | 200,000 | 222,065 | (22,065) |
| Nondepartmental | 2,414,943 | 2,468,133 | (53,190) |
| Public safety: | | | |
| Police | 4,574,194 | 4,724,687 | (150,493) |
| Fire | 2,368,453 | 2,646,956 | (278,503) |
| Civil defense | 6,613 | 8,866 | (2,253) |
| Police and Fire Civil Service Commission | 5,000 | 6,405 | (1,405) |
| Public works: | | | |
| Sanitation | 1,487,208 | 1,501,361 | (14,153) |
| Building | 471,987 | 523,889 | (51,902) |
| City garage | 471,789 | 518,264 | (46,475) |
| Cultural and recreation: | | | |
| Recreation | 499,178 | 549,785 | (50,607) |
| Civic center | 762,766 | 893,058 | (130,292) |
| Cultural Commission | 15,250 | 16,264 | (1,014) |
| Cable Commission | 1,040 | 1,160 | (120) |
| Heritage days | 26,650 | 34,579 | (7,929) |

These unfavorable variances in the General Fund were caused by unanticipated expenditures that became necessary during the year.

Fund Deficits - The City has accumulated fund deficits in the Community Development Block Grant Fund, the District Court Capital Improvement Fund, and the Component Unit - Tax Increment Finance Authority.

The Community Development Block Grant Fund deficit is \$542,069. The deficit is a result of federal reimbursement of eligible costs not being received within 60 days of the year end and because amounts were spent in excess of current grant funding. The City expects to receive federal reimbursements of \$322,456 in the upcoming year and expects to use future grant funding for the remaining deficit.

The District Court Capital Improvement Fund deficit is \$25,213. The deficit will be eliminated through future charges for service collections.

The Component Unit - Tax Increment Finance Authority has a deficit of \$306,927. The deficit will be eliminated through future tax collections.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and bank investment pools and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated two banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, mutual funds, bank investment pools, and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The City's fiduciary funds are also authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles.

The City's deposits and investment policy are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

| | Governmental Activities | Business-type Activities | Fiduciary Funds | Total Primary Government | Component Units |
|---------------------------|----------------------------|-----------------------------|----------------------|-----------------------------|--------------------|
| Cash and cash equivalents | \$ 7,932,059 | \$ 538,052 | \$ 5,286,045 | \$ 13,756,156 | \$ 1,173 |
| Investments | 1,145,000 | 536,000 | 61,975,254 | 63,656,254 | 465,000 |
| Restricted assets | - | 3,269,353 | - | 3,269,353 | - |
| Total | <u>\$ 9,077,059</u> | <u>\$ 4,343,405</u> | <u>\$ 67,261,299</u> | <u>\$ 80,681,763</u> | <u>\$ 466,173</u> |

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

| | Primary Government | Component Units |
|---|-----------------------|--------------------|
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | \$ 17,018,404 | \$ 1,173 |
| Investments in securities, mutual funds, and similar vehicles | 63,656,254 | 465,000 |
| Petty cash or cash on hand | 7,105 | - |
| Total | <u>\$ 80,681,763</u> | <u>\$ 466,173</u> |

Deposits

The bank balance of the primary government's deposits is \$16,948,742, of which \$201,080 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The component units' deposits had a bank balance of \$466,173, of which \$101,173 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The City believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

Note 3 - Deposits and Investments (Continued)

At year end, the City's investment balances were categorized as follows:

| | Category | | | Reported Amount (Fair Value) |
|--|-------------|----------------------|-------------|------------------------------------|
| | 1 | 2 | 3 | |
| Primary government: | | | | |
| Corporate bonds | \$ - | \$ 7,833,747 | \$ - | \$ 7,833,747 |
| Common stock | - | 39,734,427 | - | 39,734,427 |
| U.S. government securities | - | 10,847,482 | - | 10,847,482 |
| Subtotal | <u>\$ -</u> | <u>\$ 58,415,656</u> | <u>\$ -</u> | 58,415,656 |
| Mutual funds | | | | 2,327,598 |
| Bank investment pools | | | | <u>2,913,000</u> |
| Total primary government | | | | <u>\$ 63,656,254</u> |
| Component units - Bank investment pool funds | | | | <u>\$ 465,000</u> |

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Included in the City's investments at the balance sheet date are the following:

- Approximately \$13,000 of securities issued by the Government National Mortgage Association (GNMA). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

- Approximately \$4,940,000 of collateralized mortgage obligations (or obligations of the Federal National Mortgage Association). These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, are as follows:

| | Governmental Activities | | | | Proprietary Funds | | | | Component Unit |
|---------------------|-------------------------|-----------------------------------|--------------------|--------------------------|-------------------|-------------|---|--------------|----------------|
| | General Fund | Community Development Block Grant | Building Authority | Nonmajor and Other Funds | Water and Sewer | Golf Course | Internal Service Fund - Workers' Compensation | Total | TIFA |
| Receivables: | | | | | | | | | |
| Taxes | \$ 580,206 | \$ - | \$ - | \$ 68,740 | \$ - | \$ - | \$ - | \$ 648,946 | \$ - |
| Liens | - | 646,270 | - | - | - | - | - | 646,270 | - |
| Special assessments | - | - | - | 820,402 | - | - | - | 820,402 | - |
| Customer | - | - | - | - | 2,102,571 | 2,839 | - | 2,105,410 | - |
| Due from TIFA | 702,220 | - | - | - | - | - | - | 702,220 | - |
| Interest and other | 78,548 | - | 5,537 | 59,529 | - | - | 133 | 143,747 | 11,461 |
| Net receivables | \$ 1,360,974 | \$ 646,270 | \$ 5,537 | \$ 948,671 | \$ 2,102,571 | \$ 2,839 | \$ 133 | \$ 5,066,995 | \$ 11,461 |

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. All funds, governmental, and business-type activities also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | Unavailable | Unearned |
|---|-------------------|-------------------|
| Special assessments | \$ - | \$ 22,218 |
| Community Development Block Grant: | | |
| Liens | - | 638,933 |
| Reimbursements | 322,456 | - |
| Other | - | 18,575 |
| Grant and categorical aid payment received prior to meeting all eligibility requirements | - | 47,917 |
| Total | <u>\$ 322,456</u> | <u>\$ 727,643</u> |

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

| | Balance July 1, 2003 | Reclassifications | Additions | Deletions | Balance June 30, 2004 |
|---------------------------------------|-------------------------|-------------------|--------------|----------------|--------------------------|
| Governmental Activities | | | | | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 1,635,696 | \$ 1,770,118 | \$ - | \$ - | \$ 3,405,814 |
| Construction in progress | 986,056 | 234,367 | 699,182 | (1,085,572) | 834,033 |
| Subtotal | 2,621,752 | 2,004,485 | 699,182 | (1,085,572) | 4,239,847 |
| Capital assets being depreciated: | | | | | |
| Land improvements | 4,799,878 | (3,631,873) | 115,224 | - | 1,283,229 |
| Buildings and improvements | 31,243,264 | (111,792) | 2,111,646 | - | 33,243,118 |
| Vehicles | 3,133,180 | (81,052) | 986,945 | (34,322) | 4,004,751 |
| Equipment and machinery | 5,580,333 | 1,818,608 | 18,813 | - | 7,417,754 |
| Infrastructure | 54,808,502 | 1,624 | 1,186,203 | - | 55,996,329 |
| Subtotal | 99,565,157 | (2,004,485) | 4,418,831 | (34,322) | 101,945,181 |
| Accumulated depreciation: | | | | | |
| Land improvements | 628,734 | (107,875) | 53,266 | - | 574,125 |
| Buildings and improvements | 7,374,309 | (2,724,856) | 646,151 | - | 5,295,604 |
| Vehicles | 1,693,884 | (26,793) | 152,892 | (3,270) | 1,816,713 |
| Equipment and machinery | 2,997,525 | 2,526,261 | 353,176 | - | 5,876,962 |
| Infrastructure | 27,528,492 | 333,263 | 844,460 | - | 28,706,215 |
| Subtotal | 40,222,944 | - | 2,049,945 | (3,270) | 42,269,619 |
| Net capital assets being depreciated | 59,342,213 | (2,004,485) | 2,368,886 | (31,052) | 59,675,562 |
| Net capital assets | \$ 61,963,965 | \$ - | \$ 3,068,068 | \$ (1,116,624) | \$ 63,915,409 |

Certain amounts reported in governmental activities capital assets have been reclassified to conform with the current presentation.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

| | Balance July 1, 2003 | Additions | Deletions | Balance June 30, 2004 |
|---------------------------------------|-------------------------|-------------------|--------------------|--------------------------|
| Business-type Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 154,444 | \$ 15,000 | \$ - | \$ 169,444 |
| Construction in progress | 66,022 | 544,433 | (33,315) | 577,140 |
| Subtotal | 220,466 | 559,433 | (33,315) | 746,584 |
| Capital assets being depreciated: | | | | |
| Land improvements | 598,346 | 15,023 | - | 613,369 |
| Water and sewer distribution systems | 38,358,997 | 1,077,640 | - | 39,436,637 |
| Buildings and building improvements | 824,942 | 7,447 | - | 832,389 |
| Vehicles | 1,539,190 | 3,312 | - | 1,542,502 |
| Equipment and machinery | 778,053 | 7,957 | (3,700) | 782,310 |
| Subtotal | 42,099,528 | 1,111,379 | (3,700) | 43,207,207 |
| Accumulated depreciation: | | | | |
| Land improvements | 164,083 | 17,025 | - | 181,108 |
| Water and sewer distribution systems | 10,188,710 | 720,895 | - | 10,909,605 |
| Buildings and building improvements | 226,292 | 16,375 | - | 242,667 |
| Vehicles | 964,923 | 162,695 | - | 1,127,618 |
| Equipment and machinery | 563,056 | 62,690 | - | 625,746 |
| Subtotal | 12,107,064 | 979,680 | - | 13,086,744 |
| Net capital assets being depreciated | 29,992,464 | 131,699 | (3,700) | 30,120,463 |
| Net capital assets | <u>\$ 30,212,930</u> | <u>\$ 691,132</u> | <u>\$ (37,015)</u> | <u>\$ 30,867,047</u> |

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

| | |
|------------------------|---------------|
| General government | \$ 1,045,438 |
| Public safety | 161,052 |
| Public works | 314,463 |
| Recreation and culture | 484,950 |
| District Court | <u>44,042</u> |

| | |
|-------------------------------|----------------------------|
| Total governmental activities | <u><u>\$ 2,049,945</u></u> |
|-------------------------------|----------------------------|

Business-type activities:

| | |
|-----------------|---------------|
| Water and sewer | \$ 915,527 |
| Golf | <u>64,153</u> |

| | |
|--------------------------------|--------------------------|
| Total business-type activities | <u><u>\$ 979,680</u></u> |
|--------------------------------|--------------------------|

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|----------------------------|
| Due to/from Other Funds | | |
| General Fund | Proprietary Fund - Municipal Golf Course | \$ 224,089 |
| | Community Development Block Grant Fund | 1,088,144 |
| | Other governmental funds | <u>559,019</u> |
| | Total General Fund | 1,871,252 |
| Community Development Block Grant Fund | Proprietary Fund - Water and Sewer Fund | 83,161 |
| | General Fund | 446,655 |
| | Other governmental funds | <u>7,519</u> |
| | Total Community Development Block Grant Fund | 537,335 |
| Other governmental funds | Proprietary Fund - Municipal Golf Course | 1,420 |
| | Other governmental funds | <u>349,289</u> |
| | Total other governmental funds | <u>350,709</u> |
| | Total governmental funds | <u><u>\$ 2,759,296</u></u> |
| Due to/from Other Funds | | |
| Water and Sewer Fund | General Fund | \$ 138 |
| | Severance Reserve Fund | 2,038 |
| | Golf Course Fund | <u>2,495</u> |
| | Total Proprietary Funds | <u><u>\$ 4,671</u></u> |

Interfund balances arise from the centralized disbursement system as well as reimbursements.

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

| | Transfers Out | | | |
|--------------------------|-------------------|-----------------------|----------------------|---------------------|
| | General Fund | Governmental Funds | Proprietary Funds | Total |
| Transfers in: | | | | |
| Building Authority Fund | \$ 307,958 | (1) \$ 108,394 | \$ - | \$ 416,352 |
| Other governmental funds | 200,000 | 364,194 | 40,000 | 604,194 |
| Fiduciary funds | 100,000 | - | - | 100,000 |
| Total | <u>\$ 607,958</u> | <u>\$ 472,588</u> | <u>\$ 40,000</u> | <u>\$ 1,120,546</u> |

(1) Transfers for capital expenditures

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

| | Original Amount | Interest Rate Range | Maturity Payment Range | Principal Maturity Range | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|--------------------|------------------------|------------------------------|--------------------------------|----------------------|--------------|--------------|----------------|------------------------|
| Governmental Activities | | | | | | | | | |
| General obligation bonds: | | | | | | | | | |
| Library Building Authority | \$ 1,740,000 | 5.0%-5.5% | 2023 | \$50,000- \$100,000 | \$ 1,400,000 | \$ - | \$ 1,400,000 | \$ - | \$ - |
| Library Building Authority Refunding Bonds | 1,515,000 | 2.0%-4.4% | 2023 | \$60,000- \$105,000 | - | 1,515,000 | 70,000 | 1,445,000 | 60,000 |
| Ice Arena Building Authority | 3,750,000 | 5.0%-5.35% | 2021 | \$120,000- \$300,000 | 3,620,000 | - | 120,000 | 3,500,000 | 125,000 |
| Recreation Facility Building Authority | 9,995,000 | 4.0%-5.0% | 2026 | \$225,000- \$690,000 | 9,770,000 | - | 225,000 | 9,545,000 | 240,000 |
| 2000 Michigan Transportation Fund installment purchase agreements | 695,000 | 6.0% | 2014 | \$25,000- \$75,000 | 650,000 | - | 25,000 | 625,000 | 50,000 |
| 1997 Police computer system installment purchase agreement | 489,054 | 5.14% | 2003 | \$101,669 \$61,149 | 101,669 | - | 101,669 | - | - |
| 2003 Police computer system installment purchase agreement | 700,000 | 3.19% | 2013 | \$80,298 \$43,300 | - | 700,000 | 61,149 | 638,851 | 62,460 |
| Parking lot improvements installment purchase agreement | 649,500 | 5.17% | 2018 | \$56,875 | 606,200 | - | 43,300 | 562,900 | 43,300 |
| City of Southgate Aerial Ladder Fire Truck installment purchase agreement | 614,899 | 4.93% | 2010 | \$76,167 \$63,333 | 462,931 | - | 56,984 | 405,947 | 59,712 |
| 28th District Court Expansion installment purchase agreement | 950,000 | 4.35% | 2018 | \$65,000 | 950,000 | - | 48,905 | 901,095 | 47,956 |
| Special assessment bond | 700,000 | 6.7%-6.9% | 2005 | \$50,000 | 165,000 | - | 65,000 | 100,000 | 50,000 |
| Total governmental activities | | | | | \$ 17,725,800 | \$ 2,215,000 | \$ 2,217,007 | \$ 17,723,793 | \$ 738,428 |
| Tax tribunal | N/A | N/A | N/A | N/A | \$ 412,021 | \$ - | \$ - | \$ 412,021 | \$ 412,021 |
| Self-insurance claims | N/A | N/A | N/A | N/A | 557,271 | 292,449 | 288,120 | 561,600 | 280,800 |
| Compensated absence | N/A | N/A | N/A | N/A | 2,938,253 | 301,591 | - | 3,239,844 | 177,613 |
| Total compensated absence and other | | | | | \$ 3,907,545 | \$ 594,040 | \$ 288,120 | \$ 4,213,465 | \$ 870,434 |
| Business-type Activities | | | | | | | | | |
| General obligation bonds: | | | | | | | | | |
| Water and Sewer Bond 1993 | 1,545,000 | 4.9%-5.15% | 2005 | \$120,000- \$110,000 | \$ 345,000 | \$ - | \$ 120,000 | \$ 225,000 | \$ 115,000 |
| Water and Sewer Bond 1987 | 1,700,000 | 7.3%-6.0% | 2006 | \$125,000- \$150,000 | 575,000 | - | 125,000 | 450,000 | 150,000 |
| Sewage Disposal System bonds (17 issues) | 17,922,267 | 2.0%-5.45% | 2022 | \$795,396- \$1,031,270 | 14,706,621 | - | 969,705 | 13,736,916 | 799,183 |
| Total business-type activities | | | | | \$ 15,626,621 | \$ - | \$ 1,214,705 | \$ 14,411,916 | \$ 1,064,183 |

The Building Authority bonds represent the financing to construct the fun and fitness center, ice arena, and library expansion. The assets of the Tax Increment Financing Authority district have been pledged for repayment of the Center debt.

The special assessment bond represents the financing of public improvements that benefit a specific district; this district is specially assessed, at least in part, for the cost of the improvements. At June 30, 2004, the City has \$11,126 set aside in the SCI541 (Helen, Kennebec, and Poplar Streets) Debt Service Fund for repayment of these bonds. In addition, there is approximately \$22,000 of special assessments receivable in the future. Under Michigan law, the City is secondarily liable for payment of these bonds.

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows (other than tax tribunal, self-insurance claims, and compensated absences):

| | Governmental Activities | | | Business-type Activities | | |
|-----------|-------------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | Total |
| 2005 | \$ 738,428 | \$ 830,359 | \$ 1,568,787 | \$ 1,064,183 | \$ 377,813 | \$ 1,441,996 |
| 2006 | 765,625 | 797,974 | 1,563,599 | 1,072,120 | 350,006 | 1,422,126 |
| 2007 | 743,013 | 765,474 | 1,508,487 | 993,281 | 301,618 | 1,294,899 |
| 2008 | 775,742 | 732,785 | 1,508,527 | 870,411 | 275,977 | 1,146,388 |
| 2009-2013 | 4,198,678 | 3,126,464 | 7,325,142 | 4,679,574 | 1,044,890 | 5,724,464 |
| 2014-2018 | 4,402,307 | 2,191,042 | 6,593,349 | 4,692,890 | 449,795 | 5,142,685 |
| 2019-2023 | 4,095,000 | 1,084,445 | 5,179,445 | 1,039,457 | 31,084 | 1,070,541 |
| 2023-2026 | 2,005,000 | 203,000 | 2,208,000 | - | - | - |
| Total | <u>\$ 17,723,793</u> | <u>\$ 9,731,543</u> | <u>\$ 27,455,336</u> | <u>\$ 14,411,916</u> | <u>\$ 2,831,183</u> | <u>\$ 17,243,099</u> |

Defeased Debt

During the year, the City issued \$1,515,000 in general obligation bonds with an interest rate range of 2.0 percent to 4.4 percent; the proceeds were used to advance refund \$1,400,000 of outstanding 1995 Building Authority Library general obligation bonds with an interest rate range of 5.0 percent to 5.5 percent. The net proceeds of \$1,448,819 (after payments of \$66,181 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 Building Authority Library bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's records. The advance refunding reduced total debt service payments over the next 20 years by approximately \$143,000, which represents an economic gain of approximately \$102,000.

Total interest incurred for the City for the year approximated \$1,235,000.

Note 8 - Contingencies

Lawsuits

The City is involved in a litigation related to the flooding of the basements of citizens which occurred in September 2000. At the current time, the outcome or potential liability related to the suit cannot be determined. In addition, the extent of insurance coverage related to the event cannot be determined at this time.

Note 9 - Restricted Assets

Enterprise Funds

A portion of the water and sewer user fee has been restricted by ordinance to be used solely for the purpose of making capital improvements in the City's water and sewer system. In addition, restricted assets result from the establishment of debt reserves related to Wayne County Sewage Disposal System bonds. The restricted assets at June 30, 2004 consist of the following:

| | |
|---|---------------------|
| User fee - Cash and certificates of deposit | \$ 302,305 |
| Wayne County Sewage Disposal System bonds - Assets held at the County for future debt payments | <u>2,967,048</u> |
| Total restricted assets | <u>\$ 3,269,353</u> |

Retained earnings in the amount of \$3,269,353 have been restricted. This amount represents restricted assets arising from the water and sewer public improvement, program user charge, as well as unspent property tax collections remitted to the County for future debt service payments on the Wayne County bonds noted above.

Note 10 - Reserved and Designated Fund Balances

The City has reserved fund balances in the following funds:

General Fund:

| | |
|---|---------------|
| Unspent property tax proceeds - Sanitation | \$ 446,270 |
| Unspent property tax proceeds - Police and fire pension | 23,489 |
| Excess building permit revenue (Note 16) | <u>19,359</u> |
| Total General Fund | 489,118 |

Other nonmajor governmental funds - Capital Projects

| | |
|------------------------------|-------------------|
| Fund - Unspent debt proceeds | <u>125,469</u> |
| Total | <u>\$ 614,587</u> |

Note 10 - Reserved and Designated Fund Balances (Continued)

The City has designated fund balance in the following funds:

| | |
|--|------------|
| General Fund - Tax tribunal | \$ 412,021 |
| Other nonmajor governmental funds - Capital Projects | |
| Fund - Various projects | 900,047 |

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for benefit claims; the City is uninsured for general liability, property loss, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for general, liability, and workers' compensation claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

| | 2004 | 2003 |
|--|-------------------|-------------------|
| Unpaid claims - Beginning of year | \$ 609,371 | \$ 549,735 |
| Incurred claims - Including claims incurred but not reported | 340,633 | 312,695 |
| Claim payments | (338,404) | (253,059) |
| Unpaid claims - End of year | <u>\$ 611,600</u> | <u>\$ 609,371</u> |

Note 12 - Retirement Systems

Plan Description - The City contributes to the Municipal Employees' Retirement System, covering general City employees, and the Policemen and Firemen Retirement System, covering certain police and fire department personnel, which are the administrators for the single-employer defined benefit pension plans. These systems provide retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuations, membership consisted of the following:

| | Policemen and Firemen Retirement System | Municipal Employees' Retirement System |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them | 64 | 65 |
| Current active employees | 73 | 87 |

The plans do not issue separate financial reports.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the systems for these employees was established by City ordinances, State statute (P.A. 345), and negotiations with the City's collective bargaining units. The Municipal Employees' Retirement System requires a contribution from the employees of 4.5 percent of annual salary for members hired prior to July 1, 1991 and 3 percent of annual salary for members hired on or after July 1, 1991 up to the Social Security wage base plus 5 percent of annual salary in excess of the Social Security wage base. The Policemen and Firemen Retirement System requires contributions from the employees of 5 percent for policemen and firemen and 7.5 percent for command officers hired before January 1, 1981. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Note 12 - Retirement Systems (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the City's systems had the following activity:

| | Annual Required Contribution | Interest on Net Pension Asset | Adjustment to Annual Required Contribution | Annual Pension Cost | Actual Contribution |
|--|------------------------------------|-------------------------------------|---|---------------------------|------------------------|
| Policemen and Firemen Retirement System | \$ 372,556 | \$ (36,580) | \$ 63,053 | \$ 399,029 | \$ 351,031 |
| Municipal Employees' Retirement System | 251,813 | (13,244) | 20,802 | 259,371 | 253,157 |

The annual required contribution was determined as part of an actuarial valuation at June 30, 2002 using the entry actual age cost method. Significant actuarial assumptions include the following:

| | Policemen and Firemen Retirement System | Municipal Employees' Retirement System |
|-----------------------------|---|---|
| Investment rate of return* | 7.5% | 7.5% |
| Projected salary increases* | 5.7%-9.3% | 4.5%-17.1% |
| * Includes inflation at | 5.5% | 4.5% |
| Cost of living adjustments | None | None |

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 12 years for the Policemen and Firemen Retirement System and 14 years for the Municipal Employees' Retirement System.

City of Southgate, Michigan

Notes to Financial Statements June 30, 2004

Note 12 - Retirement Systems (Continued)

The three-year trend information for the plans is as follows:

Policemen and Firemen Retirement System

| | Fiscal Year Ended June 30 | | |
|--------------------------------|---------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Annual pension cost (APC) | \$ 399,029 | \$ 146,443 | \$ 127,374 |
| Percentage of APC contributed | 87.97 | 66.00 | 78.55 |
| Net pension obligation (asset) | \$ (439,736) | \$ (487,736) | \$ (537,523) |

Municipal Employees' Retirement System

| | Fiscal Year Ended June 30 | | |
|--------------------------------|---------------------------|--------------|--------------|
| | 2004 | 2003 | 2002 |
| Annual pension cost (APC) | \$ 259,371 | \$ 211,625 | \$ 237,415 |
| Percentage of APC contributed | 97.60 | 130.58 | 102.40 |
| Net pension obligation (asset) | \$ (170,374) | \$ (176,587) | \$ (111,871) |

Reserves

As of June 30, 2004, the Plan's legally required reserves have been fully funded as follows:

| | Municipal Employees | Policemen and Firemen |
|---------------------------------------|------------------------|--------------------------|
| Reserves for employees' contributions | \$ 1,410,744 | \$ 2,307,727 |
| Reserves for retired benefit payments | 13,888,493 | 34,852,204 |

Net Assets

The governmental activities beginning net assets reported on the statement of activities has been adjusted by \$664,323 to record the policeman, firemen, and municipal employees' net pension assets not reported in the prior year financial statements.

Note 13 - Postretirement Benefits

The City provides health care and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 130 retirees are eligible. In addition, 163 active employees may be entitled to benefits upon retirement. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$1,400,000. Premiums for life insurance amounted to approximately \$15,000 during the year ended June 30, 2004.

During the year ended June 30, 1993, the City began prefunding for the liability for postemployment benefits related to employees covered under the Policemen and Firemen Retirement System based on an actuarial valuation performed for the year ended June 30, 1997. Significant actuarial assumptions used in determining the health care obligation for the Policemen and Firemen Retirement System include a rate of return on investments of present and future assets of 7.50 percent per year compounded annually and a long-term average assumed rate of premium increases of 5.5 percent to 15.0 percent per year. The accrued liability for health care as of June 30, 2004 is not known. The percentage of payroll employer contributions determined by the actuary range from 8.5 percent to 16.4 percent and is deemed by the actuary to be sufficient to sustain the fund for 25 years.

The net assets available for police and fire retirees at June 30, 2004 total \$1,207,538. The health care benefit activity related to the employees covered under the Policemen and Firemen Retirement System is recorded in the Act 345 Health Insurance Fund. Employer contributions made to this fund of \$614,649 were based on taxes collected through a special P.A. 345 millage and approximated the actuarially determined required contribution.

In addition to the Act 345 Health Insurance Fund discussed above, the City has established a Municipal Employees' Retiree Health Care Fund to prefund the liability for postemployment benefits related to employees covered under the Municipal Employees' Retirement System. Contributions are determined by management. Current year contributions of \$100,000 were transferred from the General Fund and net assets available at June 30, 2004 totaled \$1,154,473.

Note 13 - Postretirement Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 14 - Commitments

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Disposal System. Twelve other communities and Wayne County were also named as defendants. Under terms of the consent decree, the communities are required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the project is approximately \$300,000,000, with the City’s share estimated to be approximately \$20,000,000. During prior years, the County issued bonds on the City’s behalf in the amount of approximately \$18,000,000. The bonds will be paid through a court-ordered judgment levy.

Note 15 - Joint Ventures

Southgate-Wyandotte Drainage District

The City is a member of the Southgate-Wyandotte Drainage District, a joint venture with the City of Wyandotte that provides drainage services to the residents of Southgate and Wyandotte. The venture is administered by the Wayne County Drainage Board. The City paid approximately \$1,351,000 to Wayne County during the year for operation and maintenance.

The City of Southgate has approximately a 42 percent interest in the venture. The operations of the fund will be financed through assessments to the participating cities, Wayne County, and the State of Michigan. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 15 - Joint Ventures (Continued)

Downriver Sewage Disposal System

The City, along with 12 other communities, jointly participates in the Downriver Sewage Disposal System. The City's share of capital assets, restricted assets (for debt service), and related debt is recorded in the Water and Sewer Fund as "investment in joint ventures." During the year, the City paid \$1,439,448 for operations of the system and \$915,638 for debt service.

The City is unaware of any circumstances that would cause additional benefit or burden to the participating governments in the near future, except as discussed in Note 14.

Financial statements for both joint ventures can be obtained from the administrative offices at 415 Clifford, Detroit, MI 48226.

Note 16 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

| | |
|--------------------------------------|------------------|
| Surplus at July 1, 2003 | \$ 22,180 |
| Building permit revenue | 559,058 |
| Less direct costs and indirect costs | <u>(561,879)</u> |
| Cumulative surplus at June 30, 2004 | <u>\$ 19,359</u> |

Required Supplemental Information

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|---|--------------------|-------------------|--------------|------------------------------------|
| Fund Balance - Beginning of year | \$ 2,974,900 | \$ 2,974,900 | \$ 2,974,900 | \$ - |
| Resources (Inflows) | | | | |
| Property taxes | 10,271,505 | 10,271,505 | 10,229,434 | (42,071) |
| Licenses and permits | 414,852 | 414,852 | 611,134 | 196,282 |
| Federal sources | 104,000 | 104,000 | 161,686 | 57,686 |
| State sources | 3,473,488 | 3,473,488 | 3,546,082 | 72,594 |
| Charges for services | 990,150 | 990,150 | 917,096 | (73,054) |
| Fines and forfeitures | 1,462,000 | 1,462,000 | 1,590,813 | 128,813 |
| Interest and rentals | 375,000 | 375,000 | 440,526 | 65,526 |
| Other | 81,000 | 81,000 | 89,975 | 8,975 |
| Transfer from other funds | 1,425,000 | 1,425,000 | 1,245,129 | (179,871) |
| Total resources (inflows) | 18,596,995 | 18,596,995 | 18,831,875 | 234,880 |
| Charges to Appropriations (Outflows) | | | | |
| General government: | | | | |
| City Council | 97,744 | 97,744 | 94,909 | 2,835 |
| Executive | 212,394 | 212,394 | 151,604 | 60,790 |
| Elections | 59,610 | 59,610 | 58,640 | 970 |
| Assessor | 154,732 | 154,732 | 140,598 | 14,134 |
| Attorney | 200,000 | 200,000 | 222,065 | (22,065) |
| Clerk | 147,071 | 147,071 | 139,287 | 7,784 |
| Civil Service Commission | 5,000 | 5,000 | 4,783 | 217 |
| Finance | 402,626 | 402,626 | 392,573 | 10,053 |
| Treasurer | 280,636 | 280,636 | 249,524 | 31,112 |
| Nondepartmental | 2,414,943 | 2,414,943 | 2,468,133 | (53,190) |
| Public safety: | | | | |
| Police | 4,574,194 | 4,574,194 | 4,724,687 | (150,493) |
| Fire | 2,368,453 | 2,368,453 | 2,646,956 | (278,503) |
| Emergency preparedness | 6,613 | 6,613 | 8,866 | (2,253) |
| Police and Fire Civil Service Commission | 5,000 | 5,000 | 6,405 | (1,405) |
| Public Safety Commission | 355 | 355 | 260 | 95 |
| Public works: | | | | |
| Public services | 2,003,185 | 2,003,185 | 1,823,319 | 179,866 |
| Sanitation | 1,487,208 | 1,487,208 | 1,501,361 | (14,153) |
| Building | 471,987 | 471,987 | 523,889 | (51,902) |
| Planning | 15,150 | 15,150 | 4,888 | 10,262 |
| City garage | 471,789 | 471,789 | 518,264 | (46,475) |

City of Southgate, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

| | Original Budget | Amended Budget | Actual | Variance with Amended Budget |
|--|-------------------------|-------------------------|-------------------------|------------------------------------|
| Charges to Appropriations (Outflows) (Continued) | | | | |
| Cultural and recreation: | | | | |
| Recreation | \$ 499,178 | \$ 499,178 | \$ 549,785 | \$ (50,607) |
| Civic Center | 762,766 | 762,766 | 893,058 | (130,292) |
| Senior Citizen Center | 127,721 | 127,721 | 103,314 | 24,407 |
| Cultural Commission | 15,250 | 15,250 | 16,264 | (1,014) |
| Heritage Days | 26,650 | 26,650 | 34,579 | (7,929) |
| Cable Commission | 1,040 | 1,040 | 1,160 | (120) |
| 28th District Court | 1,439,884 | 1,439,884 | 1,473,914 | (34,030) |
| Transfers to other funds | 607,958 | 607,958 | 607,958 | - |
| Total charges to appropriations (outflows) | 18,859,137 | 18,859,137 | 19,361,043 | (501,906) |
| Fund Balance - End of year | \$ 2,712,758 | \$ 2,712,758 | \$ 2,445,732 | \$ (267,026) |

City of Southgate, Michigan

Required Supplemental information Municipal Employees' Retirement System Schedule of Funding Progress (dollar amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/96 | \$ 14.5 | \$ 12.9 | \$ (1.6) | 112.4 | \$ 2.7 | - |
| 06/30/97 | 16.2 | 13.7 | (2.5) | 118.2 | 2.8 | - |
| 06/30/98 | 18.3 | 14.7 | (3.6) | 124.5 | 2.9 | - |
| 06/30/99 | 20.1 | 17.0 | (3.1) | 118.2 | 3.0 | - |
| 06/30/00 | 21.6 | 17.9 | (3.7) | 120.7 | 3.5 | - |
| 06/30/01 | 22.8 | 18.4 | (4.4) | 123.9 | 3.7 | - |
| 06/30/02 | 23.0 | 19.4 | (3.6) | 118.6 | 3.9 | - |
| 06/30/03 | 22.5 | 21.8 | (0.7) | 103.2 | 3.6 | - |

Schedule of Employer Contributions

| Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------|---------------------------------|-------------------------------------|--------------------------------------|
| 1997 | \$ 234,419 | \$ 118.41 | \$ (34,401) |
| 1998 | 187,617 | 134.64 | (99,394) |
| 1999 | 121,931 | 169.54 | (184,184) |
| 2000 | 221,598 | 65.37 | (107,453) |
| 2001 | 221,409 | 99.42 | (106,162) |
| 2002 | 237,415 | 102.40 | (111,871) |
| 2003 | 211,625 | 130.58 | (176,587) |
| 2004 | 259,371 | 97.60 | (170,374) |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation date, follows:

| | |
|-------------------------------|--------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 14 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return * | 7.5% |
| Projected salary increases * | 4.5%-17.1% |
| *Includes inflation at | 4.5% |
| Cost of living adjustments | Not applicable |

City of Southgate, Michigan

Required Supplemental information Policemen and Firemen Retirement System Schedule of Funding Progress (dollar amounts in millions)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (Percent) (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll |
|--------------------------------|--|---|---------------------------------|------------------------------------|---------------------------|--|
| 06/30/96 | \$ 35.9 | \$ 33.2 | \$ (2.7) | 108.1 | \$ 3.9 | - |
| 06/30/97 | 39.8 | 35.7 | (4.1) | 111.5 | 4.0 | - |
| 06/30/98 | 45.4 | 37.7 | (7.7) | 120.4 | 4.2 | - |
| 06/30/99 | 50.4 | 40.2 | (10.2) | 125.4 | 4.4 | - |
| 06/30/00 | 54.3 | 43.6 | (10.7) | 124.5 | 4.8 | - |
| 06/30/01 | 56.4 | 43.5 | (12.9) | 129.7 | 4.7 | - |
| 06/30/02 | 55.2 | 47.5 | (7.7) | 116.2 | 4.9 | - |
| 06/30/03 | 50.7 | 50.8 | 0.10 | 99.8 | 4.5 | - |

Schedule of Employer Contributions

| Year | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation (Asset) |
|------|---------------------------------|-------------------------------------|--------------------------------------|
| 1997 | \$ 610,791 | \$ 113.49 | \$ (279,022) |
| 1998 | 683,224 | 106.41 | (322,850) |
| 1999 | 556,945 | 96.21 | (301,734) |
| 2000 | 303,804 | 100.86 | (304,341) |
| 2001 | 74,494 | 427.17 | (548,064) |
| 2002 | 127,374 | 78.55 | (537,523) |
| 2003 | 146,443 | 66.00 | (487,736) |
| 2004 | 399,029 | 87.97 | (439,736) |

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation date, follows:

| | |
|-------------------------------|--------------------------|
| Actuarial cost method | Entry age |
| Amortization method | Level percent of payroll |
| Remaining amortization period | 12 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return * | 7.5% |
| Projected salary increases * | 5.7%-9.3% |
| *Includes inflation at | 5.5% |
| Cost of living adjustments | Not applicable |

Other Supplemental Information

City of Southgate, Michigan

| | Special Revenue Funds | | | | | | |
|--|-----------------------|---------------------|---------------------|-----------------------|-----------------------|-------------------|---|
| | Major Streets | Local Streets | Street Paving | Narcotics Enforcement | Guidance Center Grant | Severance Reserve | Southgate - Wyandotte Operation and Maintenance |
| Assets | | | | | | | |
| Cash and investments | \$ 1,598,489 | \$ 1,282,066 | \$ 1,240,497 | \$ 51,773 | \$ - | \$ 803,086 | \$ 1,101,349 |
| Receivables - Net | 543 | 437 | 68,739 | 17 | - | 191 | 820,776 |
| Due from other funds | - | 349,289 | - | - | - | - | - |
| Due from other governmental units | 209,394 | 81,481 | - | - | 84,221 | - | - |
| Other | - | - | - | - | - | - | - |
| Total assets | <u>\$ 1,808,426</u> | <u>\$ 1,713,273</u> | <u>\$ 1,309,236</u> | <u>\$ 51,790</u> | <u>\$ 84,221</u> | <u>\$ 803,277</u> | <u>\$ 1,922,125</u> |
| Liabilities and Fund Balances (Deficit) | | | | | | | |
| Liabilities | | | | | | | |
| Accounts payable | \$ 50,802 | \$ 47,715 | \$ 92,685 | \$ 207 | \$ - | \$ - | \$ 89,644 |
| Due to other funds | 576,542 | 142,238 | - | 30,000 | - | 2,038 | 7,519 |
| Due to other governmental units | - | - | - | - | 84,221 | - | - |
| Deferred revenue | - | - | - | 5,385 | - | - | - |
| Total liabilities | 627,344 | 189,953 | 92,685 | 35,592 | 84,221 | 2,038 | 97,163 |
| Fund Balances (Deficit) | | | | | | | |
| Reserved for other purposes | - | - | - | - | - | - | - |
| Unreserved: | | | | | | | |
| Designated | - | - | - | - | - | - | - |
| Undesignated | 1,181,082 | 1,523,320 | 1,216,551 | 16,198 | - | 801,239 | 1,824,962 |
| Total fund balances (deficit) | 1,181,082 | 1,523,320 | 1,216,551 | 16,198 | - | 801,239 | 1,824,962 |
| Total liabilities and fund balances (deficit) | <u>\$ 1,808,426</u> | <u>\$ 1,713,273</u> | <u>\$ 1,309,236</u> | <u>\$ 51,790</u> | <u>\$ 84,221</u> | <u>\$ 803,277</u> | <u>\$ 1,922,125</u> |

**Other Supplemental information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

| | | Debt Service Funds | | | Capital Projects Funds | | Total Nonmajor Governmental Funds |
|-------------------|--|--------------------|------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|---|
| Library | District Court Capital Improvement | SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain | Capital Improvement Fund | Drake Street Construction Fund | |
| \$ 928,658 | \$ 114,364 | \$ 10,745 | \$ 98,936 | \$ 83,254 | \$ 1,022,025 | \$ 81,355 | \$ 8,416,597 |
| 34,965 | 39 | 22,599 | 34 | 28 | 275 | 28 | 948,671 |
| 1,420 | - | - | - | - | - | - | 350,709 |
| - | 12,027 | - | - | - | - | - | 387,123 |
| - | - | - | - | - | - | 831 | 831 |
| \$ 965,043 | \$ 126,430 | \$ 33,344 | \$ 98,970 | \$ 83,282 | \$ 1,022,300 | \$ 82,214 | \$ 10,103,931 |
| | | | | | | | |
| \$ 216,324 | \$ 53,938 | \$ - | \$ - | \$ - | \$ 17,175 | \$ - | \$ 568,490 |
| - | 97,705 | - | - | - | 61,823 | - | 917,865 |
| - | - | - | - | - | - | - | 84,221 |
| - | - | 22,218 | - | - | - | - | 27,603 |
| 216,324 | 151,643 | 22,218 | - | - | 78,998 | - | 1,598,179 |
| - | - | - | - | - | 125,469 | - | 125,469 |
| - | - | - | - | - | 817,833 | 82,214 | 900,047 |
| 748,719 | (25,213) | 11,126 | 98,970 | 83,282 | - | - | 7,480,236 |
| 748,719 | (25,213) | 11,126 | 98,970 | 83,282 | 943,302 | 82,214 | 8,505,752 |
| \$ 965,043 | \$ 126,430 | \$ 33,344 | \$ 98,970 | \$ 83,282 | \$ 1,022,300 | \$ 82,214 | \$ 10,103,931 |

City of Southgate, Michigan

| | Special Revenue Funds | | | | | | |
|---|-----------------------|---------------------|---------------------|--------------------------|--------------------------|----------------------|--|
| | Major Streets | Local Streets | Street Paving | Narcotics Enforcement | Guidance Center Grant | Severance Reserve | Southgate - Wyandotte Operation and Maintenance |
| Revenues | | | | | | | |
| Property taxes | \$ - | \$ - | \$ 1,352,533 | \$ - | \$ - | \$ - | \$ - |
| Federal sources | 699,182 | - | - | - | 370,160 | - | - |
| State sources | 1,232,887 | 479,438 | - | - | - | - | - |
| Charges for service | - | - | - | - | - | - | - |
| Interest income | 14,321 | 14,366 | 5,311 | 788 | - | 6,253 | 18,053 |
| Special assessments | - | - | - | - | - | - | 875,230 |
| Other | - | - | - | - | - | - | - |
| Total revenues | 1,946,390 | 493,804 | 1,357,844 | 788 | 370,160 | 6,253 | 893,283 |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| General government | - | - | - | - | - | 35,343 | - |
| Public services | 1,356,181 | 522,145 | 420,963 | - | 370,160 | - | 1,351,330 |
| Public safety | - | - | - | 58,747 | - | - | - |
| Capital outlay | - | - | - | - | - | - | - |
| Debt service | - | - | - | - | - | - | - |
| Total expenditures | 1,356,181 | 522,145 | 420,963 | 58,747 | 370,160 | 35,343 | 1,351,330 |
| Excess of Revenues Over (Under) Expenditures | 590,209 | (28,341) | 936,881 | (57,959) | - | (29,090) | (458,047) |
| Other Financing Sources (Uses) | | | | | | | |
| Proceeds from issuance of debt | - | - | - | - | - | - | - |
| Operating transfers in | - | 305,206 | - | - | - | 240,000 | - |
| Operating transfers out | (364,194) | - | - | - | - | - | - |
| Total other financing sources (uses) | (364,194) | 305,206 | - | - | - | 240,000 | - |
| Net Change in Fund Balances | 226,015 | 276,865 | 936,881 | (57,959) | - | 210,910 | (458,047) |
| Fund Balances - Beginning of year | 955,067 | 1,246,455 | 279,670 | 74,157 | - | 590,329 | 2,283,009 |
| Fund Balances (Deficit) - End of year | \$ 1,181,082 | \$ 1,523,320 | \$ 1,216,551 | \$ 16,198 | \$ - | \$ 801,239 | \$ 1,824,962 |

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and
Changes in Fund Balances (Deficit)
Nonmajor Governmental Funds
Year Ended June 30, 2004

| | | Debt Service Funds | | | Capital Projects Funds | | Total |
|-------------------|--|--------------------|------------------------------------|-----------------------------------|--------------------------------|--------------------------------------|-----------------------------------|
| Library | District Court Capital Improvement | SCI 541 Bond | Michigan Transportation Bond | Southgate - Wyandotte Drain | Capital Improvement Fund | Drake Street Construction Fund | Nonmajor Governmental Funds |
| \$ 687,133 | \$ - | \$ - | \$ - | \$ 174 | \$ - | \$ - | \$ 2,039,840 |
| - | - | - | - | - | - | - | 1,069,342 |
| - | - | - | - | - | - | - | 1,712,325 |
| - | 124,615 | - | - | - | - | 10,546 | 135,161 |
| 4,897 | 2,944 | 2,583 | 1,126 | 910 | 221,280 | 3,303 | 296,135 |
| - | - | 11,679 | - | - | - | - | 886,909 |
| 18,876 | - | - | - | - | 268,561 | - | 287,437 |
| 710,906 | 127,559 | 14,262 | 1,126 | 1,084 | 489,841 | 13,849 | 6,427,149 |
| - | 517,417 | - | - | 4,001 | 44,119 | - | 600,880 |
| 554,412 | - | - | - | - | - | - | 4,575,191 |
| - | - | - | - | - | - | - | 58,747 |
| - | - | - | - | - | 368,410 | - | 368,410 |
| - | 214,730 | 74,553 | 58,987 | - | - | - | 348,270 |
| 554,412 | 732,147 | 74,553 | 58,987 | 4,001 | 412,529 | - | 5,951,498 |
| 156,494 | (604,588) | (60,291) | (57,861) | (2,917) | 77,312 | 13,849 | 475,651 |
| - | - | - | - | - | 700,000 | - | 700,000 |
| - | - | - | 58,988 | - | - | - | 604,194 |
| (108,394) | - | - | - | - | - | - | (472,588) |
| (108,394) | - | - | 58,988 | - | 700,000 | - | 831,606 |
| 48,100 | (604,588) | (60,291) | 1,127 | (2,917) | 777,312 | 13,849 | 1,307,257 |
| 700,619 | 579,375 | 71,417 | 97,843 | 86,199 | 165,990 | 68,365 | 7,198,495 |
| <u>\$ 748,719</u> | <u>\$ (25,213)</u> | <u>\$ 11,126</u> | <u>\$ 98,970</u> | <u>\$ 83,282</u> | <u>\$ 943,302</u> | <u>\$ 82,214</u> | <u>\$ 8,505,752</u> |

City of Southgate, Michigan

| | Pension and Other Employee Benefit Trust Funds | | | | |
|--|--|--|-----------------------------|---|----------------------|
| | General Employees' Retirement System | Policemen and Firemen Retirement System | Act 345 Health Insurance | Municipal Employees' Retiree Health Care | Totals |
| Assets | | | | | |
| Cash and investments | \$ 20,624,888 | \$ 43,447,421 | \$ 1,228,529 | \$ 1,154,114 | \$ 66,454,952 |
| Receivables | 79,906 | 166,921 | 5,066 | 359 | 252,252 |
| Total assets | 20,704,794 | 43,614,342 | 1,233,595 | 1,154,473 | 66,707,204 |
| Liabilities | | | | | |
| Accounts payable | - | - | 26,057 | - | 26,057 |
| Due to other governmental units | - | - | - | - | - |
| Cash bonds and deposits | - | - | - | - | - |
| Total liabilities | - | - | 26,057 | - | 26,057 |
| Net Assets - Held in trust for pension and other employee benefits | <u>\$ 20,704,794</u> | <u>\$ 43,614,342</u> | <u>\$ 1,233,595</u> | <u>\$ 1,154,473</u> | <u>\$ 66,707,204</u> |

**Other Supplemental Information
Combining Statement of Net Assets
Fiduciary Funds
Year Ended June 30, 2004**

| Agency Funds | | | |
|-------------------|------------------|-------------------|-------------------|
| Senior | | | |
| Tax Collection | Citizens' Trust | Escrow | Totals |
| \$ 494,299 | \$ 36,731 | \$ 275,317 | \$ 806,347 |
| - | - | 165 | 165 |
| 494,299 | 36,731 | 275,482 | 806,512 |
| - | - | 41,335 | 41,335 |
| 494,299 | - | - | 494,299 |
| - | 36,731 | 234,147 | 270,878 |
| \$ 494,299 | \$ 36,731 | \$ 275,482 | \$ 806,512 |

City of Southgate, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2004

| | Municipal Employees' Retirement System | Policemen and Firemen Retirement System | Act 345 Health Insurance | Municipal Employees' Retiree Health Care | Totals |
|--|---|--|--------------------------------|---|----------------------|
| Additions | | | | | |
| Investment income: | | | | | |
| Interest and dividends | \$ 502,989 | \$ 1,181,404 | \$ 6,375 | \$ 11,860 | \$ 1,702,628 |
| Net increase in fair value of investments | 1,786,607 | 2,795,278 | - | - | 4,581,885 |
| Investment expense | (154,590) | (336,849) | - | - | (491,439) |
| Net investment income | 2,135,006 | 3,639,833 | 6,375 | 11,860 | 5,793,074 |
| Contributions: | | | | | |
| Employer | 253,157 | 351,031 | 614,649 | - | 1,218,837 |
| Employee | 142,893 | 258,567 | - | - | 401,460 |
| Total contributions | 396,050 | 609,598 | 614,649 | - | 1,620,297 |
| Total additions | 2,531,056 | 4,249,431 | 621,024 | 11,860 | 7,413,371 |
| Deductions | | | | | |
| Benefit payments | 1,381,575 | 3,295,233 | 942,065 | - | 5,618,873 |
| Refunds of contributions | 82,119 | 13,219 | - | - | 95,338 |
| Total deductions | 1,463,694 | 3,308,452 | 942,065 | - | 5,714,211 |
| Net Additions (Reductions) - Before transfers | 1,067,362 | 940,979 | (321,041) | 11,860 | 1,699,160 |
| Transfers - Net | - | - | - | 100,000 | 100,000 |
| Net Increase (Decrease) in Net Assets Held for Pension Benefits | 1,067,362 | 940,979 | (321,041) | 111,860 | 1,799,160 |
| Net Assets Held in Trust for Pension Benefits | | | | | |
| Beginning of year | 19,637,432 | 42,673,363 | 1,528,579 | 1,042,613 | 64,881,987 |
| End of year | <u>\$ 20,704,794</u> | <u>\$ 43,614,342</u> | <u>\$ 1,207,538</u> | <u>\$ 1,154,473</u> | <u>\$ 66,681,147</u> |

City of Southgate, Michigan

**Federal Awards
Supplemental Information
June 30, 2004**

City of Southgate, Michigan

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Independent Auditor's Report

To the Honorable Members of the Board
City of Southgate, Michigan

We have audited the basic financial statements of the City of Southgate, Michigan for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. Those basic financial statements are the responsibility of the management of the City of Southgate, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Southgate, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 10, 2004

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

To the Honorable Members of the Board
City of Southgate, Michigan

We have audited the financial statements of the City of Southgate, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Southgate, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Southgate, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Members of the Board
City of Southgate, Michigan

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 10, 2004

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

To the Honorable Members of the Board
City of Southgate, Michigan

Compliance

We have audited the compliance of the City of Southgate, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Southgate, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Southgate, Michigan's management. Our responsibility is to express an opinion on the City of Southgate, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Southgate, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Southgate, Michigan's compliance with those requirements.

In our opinion, the City of Southgate, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

To the Honorable Members of the Board
City of Southgate, Michigan

Internal Control Over Compliance

The management of the City of Southgate, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Southgate, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 10, 2004

City of Southgate, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

| Federal Agency/Pass-through Agency/Program Title | CFDA Number | Pass-through Entity | |
|--|----------------|-------------------------|---------------------------|
| | | Project/Grant Number | Federal Expenditures |
| U.S. Department of Housing and Urban Development - Passed through Wayne County Community Development Block Grants: | 14.218 | | |
| Planning | | 03-27-20 | \$ 15,600 |
| Senior Citizen Service | | 03-27-05A | 21,900 |
| Senior Center Improvement | | 01-27-03A | 75,000 |
| Senior Center Improvement | | 02-27-03A | 15,000 |
| Senior Center Improvement | | 03-27-03A | 118,500 |
| Housing Rehab | | 03-27-14A | 34,253 |
| Total U.S. Department of Housing and Urban Development | | | 280,253 |
| Department of Health and Human Services - Build Mentally Healthy Communities: A Model of Mental Health Consultation to Child Care Settings (Serving Infants, Toddlers, and Preschoolers) | 93.230 | | 370,160 |
| Federal Surface Transportation Funds - Passed through the Michigan Department of Transportation | 20.205 | | 699,182 |
| Federal Emergency Management Agency - Passed through the State of Michigan - State and Local Assistance | 83.552 | | 109,814 |
| U.S. Department of Justice: | | | |
| Local Law Enforcement Block Grant | 16.540 | 2001-LB-BX-3984 | 59,961 |
| Local Law Enforcement Block Grant | 16.540 | 2002-LB-BX-1658 | 22,347 |
| Local Law Enforcement Block Grant | 16.540 | 2003-LB-BX-1651 | 15,798 |
| COPS - Passed through Downriver Community Conference | 16.710 | | 17,203 |
| Total U.S. Department of Justice | | | 115,309 |
| Total federal awards | | | <u><u>\$1,574,718</u></u> |

City of Southgate, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

| | |
|--|----------------------------|
| Revenue from federal sources - As reported on financial statements (includes all funds) | \$ 1,356,948 |
| Federal revenue recognized as other revenue in the Water and Sewer Fund | 63,437 |
| Federal revenue not recognized in the financial statements because funds were not received within 60 days | 322,456 |
| Federal revenue reported in the financial statements, but expended in a prior period | <u>(168,123)</u> |
| Federal expenditures per the schedule of expenditures of federal awards | <u>\$ 1,574,718</u> |

City of Southgate, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Southgate, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal funds were provided to subrecipients as follows:

| CFDA Numbers | Federal Program | Amount |
|--------------|---|-----------|
| 93.230 | Department of Health and Human Services: Build Mentally Healthy Communities: A Model of Mental Health Consultation to Child Care Settings (Serving Infants, Toddlers, and Preschoolers) | \$370,160 |

City of Southgate, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

| CFDA | | |
|---------|---|------------|
| Numbers | Federal Program | Amount |
| 93.230 | Department of Health and Human Services: Build Mentally Healthy Communities: A Model of Mental Health Consultation to Child Care Settings (Serving Infants, Toddlers, and Preschoolers) | \$ 370,160 |
| 20.205 | Federal Surface Transportation Funds - Passed through the Michigan Department of Transportation | 699,182 |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Southgate, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

September 24, 2004

Honorable Mayor and Members
of the City Council
City of Southgate
14400 Dix Toledo Road
Southgate, MI 48195

Dear Mayor and City Council Members:

We recently completed the audit of the financial statements of the City of Southgate, Michigan for the year ended June 30, 2004. Once again, the entire Finance Department put forth an outstanding effort in preparing for the audit. In addition to the audit report, we offer the following comments for your consideration.

Cash Receipt Procedures and Bank Reconciliations

One of the Treasurer's department's primary responsibilities is to account for the cash flows of the City. A key internal control tool used to account for cash flows is bank reconciliations. During our review of the bank reconciliations and cash receipt procedures the following items came to our attention.

- We noted that bank reconciliations were not dated by the preparer or reviewed once they were completed. We suggest having the preparer sign and date the reconciliation to help ensure timely preparation and we also suggest having an individual in the Finance Department review and sign-off on the reconciliation. The timely preparation and review of bank reconciliations minimizes the probability of the misappropriation of funds, which could result under the City's current process.
- The City's bank reconciliations include non-sufficient fund checks (NSF checks) as deposits in transit. During the current year we noted that the City has several old NSF checks being included on the reconciliations. We suggest reviewing NSF check activity on a monthly basis and writing off checks that are deemed un-collectible.
- During our review of the Golf Course Clubhouse cash receipt procedures we noted that the cash register in the clubhouse was not functioning properly. The register's void function was broken and voids were being done manually by the clubhouse manager. We suggest fixing or replacing the register so that all void activity can be tracked and reviewed.

Water Billings

As noted in prior years, the City continues to be behind in preparing water and sewer billings. Such delays in the billing process result in high receivable balances and less cash on hand to use for Water and Sewer operations. We understand the City reviewed the billing procedures and billings are now being sent out on time.

Grants

As of June 30, 2004, \$298,500 of CDBG grant money had been spent on the Senior Center project but the grant funds had not been reimbursed to the City by the granting agency due to Davis Bacon wage violations on the project. We suggest working with the granting agency to resolve the issue so that the City is reimbursed for the amounts spent on the project. If the violations are not resolved, the City is ultimately responsible for these expenses.

During our testing we noted that the City overspent its CDBG funding related to the Senior Center project by approximately \$200,000. We understand that the City is currently working to have future CDBG funds appropriated to cover for the additional costs, but as of September 10, 2004 (our audit opinion date) no such agreement was in place. If future CDBG funds are not available to pay for these costs, the City would be required to pay for the overage.

In the current year we noted significant differences between the CDBG grant activity maintained by the various grant coordinators and the general ledger maintained by the Finance Department. As of June 30, 2004 all of the differences had been reconciled, but we suggest having the grant coordinators review their records with the Finance Department on a quarterly basis to ensure everything is being accounted for accurately.

Retirement Systems

Municipal Employees Retirement System – The City's contribution rate increased from 6.2% of covered payroll in 2003-04 to 11.62% for 2004-05, and the actuary has reported that it may increase to as high as 14% in the future. In addition, the retiree benefit payments rose from approximately \$870,000 in 2002-03 to approximately \$1,400,000 in 2003-04. The City should continue to monitor the performance and activity of this fund and budget appropriately for the required increased contributions.

Police and Fire Retirement System - The City's contribution rate increased from 7.47% of covered payroll in 2003-04 to 21.93% for 2004-05. Although the City does have a specific millage to pay for the required contributions to this plan, we suggest continuing to monitor the performance and activity of the plan.

Current State Financial Picture

State shared revenue accounts for approximately 19% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the

Current State Financial Picture (Continued)

counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the City to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The following table sets forth a history of your approximate revenue sharing payments, based upon the State's fiscal year:

| Year ended September 30 | Constitutional | Statutory | Total |
|----------------------------|----------------|-------------|-------------|
| 2001 | \$1,954,000 | \$2,110,000 | \$4,064,000 |
| 2002 | \$1,973,000 | \$1,898,000 | \$3,871,000 |
| 2003 | \$2,006,000 | \$1,656,000 | \$3,662,000 |
| 2004 | \$1,990,000 | \$1,306,000 | \$3,296,000 |
| 2005 - estimated | \$2,070,000 | \$1,222,000 | \$3,292,000 |

Over the past several years, the City has been working to maintain a healthy fund balance. Undesignated fund balance for the General Fund is approximately \$1,544,000 for the year ended June 30, 2004, a decrease of approximately \$554,000 from the previous year. As we have all learned, fund balance is necessary due to uncertainty related to major revenue sources and increasing costs. The City is positioned in the very short-term to weather this downturn cause of the fund balance that exists, but we encourage management to make every effort to protect and preserve the level of fund balance. This will ensure the City's health for years to come. We commend the City for initiating a process to develop a five-year financial projection. We look forward to covering the results of the projection with the Council in the near future.

Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

| | | | |
|------|------|------|------|
| 2005 | 2.3% | 1999 | 1.6% |
| 2004 | 2.3% | 1998 | 2.7% |
| 2003 | 1.5% | 1997 | 2.8% |
| 2002 | 3.2% | 1996 | 2.8% |
| 2001 | 3.2% | 1995 | 2.6% |
| 2000 | 1.9% | | |

The 2003 inflation factor, which was the lowest level of inflation in the last ten years, was used for property taxes levied in the City's year ended June 30, 2004. As indicated above, growth in existing property is significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. The charter operating mills are 12.5000 versus the Headlee limited mills of 10.1968. The City is currently levying at capacity, and the operating millage of the City will continue to shrink as the rates get "rolled back" annually.

Other Legislative Matters

During the current legislative session, there have been a number of bills introduced that will impact local governments. The following is a highlight of several of the bills:

- HB 4880, as passed by the House in August 2004, proposes to increase property taxes for mobile home owners with additional monies earmarked for local governments.
- HB 6017 was introduced to address the inconsistent treatment of assessing commercial property using the occupancy method. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This treatment is a result of what is commonly referred to as the "WPW Case" involving the City of Troy.
- HB 4649 was passed by the House and would allow local governments to pass a resolution exempting new construction on homestead property used as a living area from property taxes (subject to certain limitations) in all or just certain areas of the local jurisdiction.

Property Taxes (Continued)

- HB 5358 was introduced and would change the requirements for personal property tax examiners including: requiring the State Tax Commission to qualify examiners based on experience and examination, require examiners to be employees of a local government, and make payments to examiners on a per parcel basis.
- HB 5538, as passed by the House, exempts property under development from school operating taxes (18 mills) by classifying the property as "homestead" property. The bill also proposes to not allow the taxable value of property to "uncap" when the property is sold to a new owner.
- HB 4234, as passed by the House, would provide a personal property tax exemption to businesses with taxable value of personal property of \$7,500 or less (these businesses would be exempt from paying any personal property taxes). Language was included in the House that any revenue loss to local governments would be reimbursed by the State. However, these monies would require an appropriation by the Legislature.
- SB 721 was introduced which would assess a \$3 per ton tipping fee at landfills which could increase the cost of refuse disposal for local governments. The monies generated from this legislation are intended to be used by the State for recycling.

Post-employment Benefits

Two new accounting pronouncements were recently issued by the Governmental Accounting Standards Board (GASB). GASB 43 and 45 address the accounting and disclosures related to post-employment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in fiscal year 2007-2008, the City will be required to measure its retiree health care liability through actuarial valuations that are to be performed biennially. These valuations will compute an "annual required contribution". The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less. The City currently has funds set aside in the Retiree Health Care Fund to help offset this liability. We commend the City for having the foresight to begin pre-funding this liability.

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the City may want to consider this option as it evaluates and continues to try to control its health care costs.

Transportation Matters

HB 4358 has been introduced which changes vehicle weight restrictions on Michigan roads for certain trucks (without regard to existing limitations imposed by local governments) and could reduce overweight truck fines.

Municipal Finance Act Revisions – Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end (December 31, 2004) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

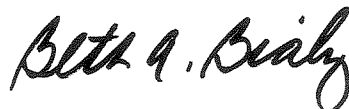
Public Accounting Update

During the current audit, a new standard related to the detection of fraud in an organization was implemented. The new standard adds greater guidance related to the steps an auditor must perform in assessing the risk of fraud. It also specifies that non-accounting personnel must be included in an auditor's inquiries related to fraud.

We would like to express our thanks and appreciation for the courtesy and cooperation extended to us by the City staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

Yours truly,

PLANTE & MORAN, PLLC



Beth A. Bialy



William E. Brickey